

CIA - Mr. Cary



DEPARTMENT OF STATE
WASHINGTON

DISSEMINATION 4-1

Honorable James Harvey
House of Representatives
Washington, D. C. 20515

Dear Congressman Harvey:

Secretary Rusk has asked me to reply to your letter of January 20, 1967, asking certain questions about the Export-Import Bank loan for machine tools to be used in a new automobile plant in the Soviet Union which will be constructed by the FIAT company of Italy.

The answers to your numbered questions are as follows:

1. Secretary Rusk approved of the proposed loan, which is to make available up to \$50 million to finance purchases of United States machine tools and other automobile manufacturing equipment for the FIAT plant.

2. On the basis of a review by the Department of Commerce of the list, made available by FIAT to your Subcommittee, of equipment which might be ordered for the plant in the USSR, it was concluded that there are only a few items on the list which, if ordered, may not be licensable under the Export Control Act. The precise status of this equipment cannot be determined until license applications with specifications are submitted to the Commerce Department. I would emphasize that equipment ordered from United States firms will be subject to a detailed review on a case-by-case basis. If the Department of Commerce should receive license applications for machinery or equipment that would make a contribution to the Soviet military potential detrimental to the security and welfare of the United States such applications would be denied, as required by the Export Control Act.

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3. If the Export-Import Bank does not participate in this transaction, it is unlikely that the Istituto Mobiliare Italiano (IMI), the Italian Bank which requested Eximbank credit, could obtain comparable financing from other sources unless procurement were transferred to the country where financing is sought. Thus, if FIAT were to shift procurement of the equipment it now intends to purchase in the United States to some other country, the credit facilities of that country's government-backed export financing agency would doubtless be made available to IMI on terms equal to or possibly more favorable than those generally extended by the Export-Import Bank. The Italian Bank could probably obtain financing from private sources in Europe irrespective of where the equipment is procured, but the terms would reflect the present high cost of private credit abroad and would therefore be unattractive.

Thank you for the opportunity to comment on this important matter. If you have any further questions, I know you will feel free to call upon me.

Sincerely yours,

Douglas MacArthur II
Assistant Secretary for
Congressional Relations

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Honorable James Harvey
House of Representatives
Washington, D. C.

Dear Mr. Harvey:

This is in further response to your letter of January 20 to Secretary Connor concerning the proposed Export-Import Bank loan for machine tools to be used in an automobile plant in the Soviet Union. The following comments are keyed to the three specific questions in your letter.

1. Secretary Connor approved of the proposed loan which is to finance purchases of up to \$50 million of U. S.-origin machine tools and other automobile manufacturing equipment for the FIAT plant to be built in the Soviet Union.
2. The Department of Commerce has received a list of the U. S.-origin automobile manufacturing equipment that the FIAT designers would like to install in the Soviet Union plant. Our technicians have examined the relatively brief descriptions of the equipment listed, and their preliminary finding is that the equipment is either specially designed for or primarily employed in the production of automobiles. A few of the machine tools on the list, however, while normally used in the production of automobiles can also be used in the production of strategic goods. An application for the export of such machine tools to the Soviet Union would be cause for a particularly careful appraisal.

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In considering such license applications for Eastern European destinations, the Department of Commerce analyzes a variety of factors before issuing licenses authorizing the export of the commodities involved. Among the factors we look at are the extent to which the particular equipment is used in automobile production; whether the equipment has important strategic applications; and the availability to the Soviet Union of comparable or nearly comparable equipment from countries other than the United States. We are aware that some U. S. automobile production machinery is superior to any produced abroad. But we also know there are machines designed and built in Europe and Japan that are now being used to produce quality automobiles. If all U. S. machinery normally used in automobile production were denied to Eastern Europe, the USSR could still equip its new plant with non-U. S. machinery. In such event, the USSR might have a somewhat less efficient automobile plant, but the loss to the United States would be significant in terms of balance of payments and employment.

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3. Your letter also raises the question whether it is "likely that other sources of financial assistance can be utilized." While we do not have detailed information on all aspects of this possible transaction, we believe that in view of the amount of financing involved, the tight money situation in the United States, and the unusual character of the proposed transaction, other sources of financing are unlikely to be available in the United States without some form of Ex-Im Bank participation. As for the availability of financing from other countries, we are all aware, of course, that many Western European governments assist the export financing of their own goods and services, usually by means of officially-backed export credit guarantees or insurance. From our observation of the performance of their export financing systems, we expect that financing for comparable European machinery for the FIAT plant could be obtained in Western Europe. In that event, the equipment would not, of course, be of U. S. origin, although it might be made from U. S. licensed designs. Even in this latter case there would probably be much less commercial and balance of payments advantages accruing to the United States than there would be if the equipment came directly from the United States and the sales were handled by the Ex-Im Bank.

Sincerely yours,

Lawrence A. Fox
Director

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LLewins--OIRB
RShaw--OCFP
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WRoot--State
JMGeorge
EPWalinsky
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